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Policy Brief Series

***The European Council's Financial Mega Deal:
An unprecedented challenge for the political and
academic world***

Part 1

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TRACK Teaching and Researching
the European Council



More than ever before, the activities and actions of the European Council (EUCO) in July 2020 and over the following months up to their December meeting have demonstrated that studying the role of this key institution is of vital importance for understanding the European Union's (EU) fundamental trends and also the future evolution of Member States. For our academic agenda, we face a considerable and perhaps even an unprecedented challenge in studying a moving target of major significance. This TRACK policy brief series provides an in-depth analysis of the European Council's actions during its management of the corona crisis. While this first policy brief gives an overview of key decisions taken by the EU institutions and in particular the European Council as well as the related academic and political discourse, the second policy brief will shed some light on the road to and from the July summit, thus, assessing the decision-making process within the European Council and among the EU institutions. Our third and final policy brief elaborates on the governance mechanisms of the Recovery and Resilience Facility (RRF). Overall, this threefold analysis aims to provide a comprehensive starting point for researching and teaching about the European Council. Further studies will deal with: internal decision making (e.g. cleavages and coalitions inside the European Council and its club spirit); the roles and powers of the European Council revisited (including its impact on the inter-institutional balance of power within the Union's constitutional architecture), the crisis management and its results/products as tests for academic approaches, short term and long term perspectives including speculation about possible scenarios.



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The ambitious and comprehensive package for managing an unprecedented crisis – the need for a closer look

Box 1: Key Takeaways

- *Claims for and doubts about an history-making decision*
- *Confirmation of the European Council's key role in crisis management*
- *A new (Master?) narrative for the Union: an ambitious and comprehensive financial package for resolving an unprecedented crisis in a spirit of solidarity*
- *Breaking long established taboos of national sovereignty reflexes*
- *Reflections about long term perspectives: disputes on crossing the Rubicon and framing a Hamiltonian moment?*
- *Demanding challenges for the academic agenda: speculating about short-term and long-term perspectives*

Recent dynamics during the EU's corona crisis management have highlighted once again the European Council's (EUCO) key role and steering function within the EU's decision-making process. This policy brief provides an overview of the EUCO's history-making decisions as well as an orientation on how to evaluate and assess them in light of typical patterns, narratives and dynamics of European integration.

The European Council Conclusions of July 2020 and their legal follow up

The key to studying the European Council's role and performance is revealed by taking a closer look at conclusions of the special meeting from the European Council in July 2020 and the documents' development. Members of the European Council had to take a fast but bumpy road to this July meeting and spend five days of stressful negotiations, including night sessions, in order to reach a consensus: they took

decisions which seemed unavoidable in June but completely unthinkable three month earlier in February – particularly in view of the purely national reactions during the pandemic's first weeks.

The final conclusions of the European Council of July, comprising 68 pages, as well as the process that led to agreement among EU leaders in December 2020, can be considered as constructing a new narrative for the Union's own *raison d'être*: using similar formulations, European leaders call the result of their marathon summit a "far-reaching" as well as "ambitious and comprehensive package [...] destined to tackle the effects of an unprecedented crisis"¹.

Figures of the financial package look staggering: Whereas the amount of €1.7074 billion for the Multi-Annual Financial Framework (MFF) 2021-2027 is approximately the same size as that for 2014-2020, €750 billion for the Recovery and Resilience Facility



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(RRF) as the key instrument at the heart of Next Generation EU (NGEU) is the taboo breaking novelty: “€360 000 million [...] may be used for

providing loans” and “€390 000 million [...] may be used for expenditure” (Decision 2020 /2053 Art. 5 (1)) (see table 1).

Table 1: MFF 2021-2027 and NGEU total allocations per heading²

Policy Area	MFF	NGEU	Total
1. Single Market, Innovation and Digital	132.8	10.6	143.4
2. Cohesion, Resilience and Values	377.8	721.9	1099.7
3. Natural Resources and Environment	356.4	17.5	373.9
4. Migration and Border Management	22.7	-	22.7
5. Security and Defence	13.2	-	13.2
6. Neighbourhood and the World	98.4	-	98.4
7. European Public Administration	73.1	-	73.1
Total MFF	1074.3	750.0	1824.3

Along with the €540 billion passed for three safety nets covering jobs and workers, business as well as Member States earlier in 2020³, the overall amount adds up to €2 300 trillion. Additionally, the pandemic emergency purchase programme (PEPP) of the European Central Bank of March and December amounts €1 850 billion.

The European Council followed by the European Parliament (EP) set a focus on what some call modern objectives: at least 37% (Regulation 2021/241 recital 23⁴) of each recovery and resilience plan of individual member states must target green transition and at least 20% must promote digital transformation (Regulation 2021/241 recital 26). Over and above the expenditure side as listed in table 1, this agreement broke with long held taboos for the income side: the

Commission is empowered “to borrow funds on the capital market on behalf of the Union” (Decision 2020/2053 Recital 16, Art.5(1))⁵. Creating debts for the Union, required a radical shift from former firm positions and respective practices in keeping the EU budget size under strict national control. The conclusions and following legal acts document unexpected steps for financing the Union’s budget: raising the ceiling “of own resources allocated to the Union [...] to 1,40% of the sum of all the Member States’ Gross national income (GNI)” (Decision 2020/2053 Art.3(1)) and an “extraordinary and temporary increase in the own resource ceilings for the allocation of the resources necessary for addressing the consequences of the COVID 19 crisis” (Decision 2020/2053 Art.6). Also revolutionary for many is the road map for reforming the Union’s own



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resources system by introducing new own resources (EUCO 10/20 A29⁶).

Box 2: Documents to study

European Council Documents

Special meeting of the European Council (17, 18, 19, 20 and 21 July 2020) – [Conclusions](#)

European Council meeting (10 and 11 December 2020) – [Conclusions](#)

Council/ European Parliament Documents

Regulation 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility

Council [Regulation](#) (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027

[Regulation](#) (EU, Euratom) 2020/2092 of the European Parliament and of the Council of 16 December 2020 on a general regime of conditionality for the protection of the Union budget.

Council [Regulation](#) (EU) 2020/2094 of 14 December 2020 establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis

Council [Decision](#) (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources for the European Union and repealing Decision 2014/335/EU, Euratom

Council [Decision](#) on the system of own resources for the European Union and repealing Decision 2014/335/EU, Euratom

European Parliament [Resolution](#) of 23 July 2020 on the conclusions of the extraordinary European Council meeting of 17-21 July 2020 (2020/2732(RSP))

[Interinstitutional Agreement](#) between the European Parliament, the Council of the European Union and the European Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap towards the introduction of new own resources



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With their complex consensus, the Union's leaders' agreement paved the way for EU institutions to adopt a set of legal acts (see box 2).

The 11 December meeting of the European leaders also confirmed the financial packages with only a few additions, reaching a compromise about the rule of law conditionality which had blocked a swift transposition into binding documents.

For the Union's institutional architecture, legal acts including the Inter-Institutional Agreement between the EP, Council and Commission, have established a set of complicated rules for the governance mechanism, taking up some established procedures on the one hand as well as introducing variations of supranational and intergovernmental patterns on the other hand. But the legal provisions (see e.g. Regulation 2020/2094 (Art.1) and Regulation 2021/241, recital 39) also deeply affect the domestic governmental system for successfully playing the multilevel game. The criteria for the

appropriate amounts to be paid to Member States create a considerable workload for national machineries (Regulation 2021/241, recital 39 and Art. 3) in fulfilling a long list of required goals for investment and reforms, rather than electoral gifts without any long-term impact.

As guardian of rules, the Commission is given the task of controlling the compliance of Member States with RFF aims. National commitments should be credible. The respective legal act formulates a detailed list of "assessment guidelines" leading to a "rating" by the Commission if Member States fulfil the criteria "to a large extent", "to a moderate extent" or to a "small extent" (Regulation 2021/241, Annex V). Based on former studies, we expect major tasks for the political leadership of Member States and the coordination of administrations. The crisis and opportunity-driven change of government in Italy exemplifies the high sensitivity for domestic politics.

Box 3: Six Pillars of the RRF (Regulation 2021/241, Art. 3)

The scope of application of the Facility shall refer to policy areas of European relevance structured in six pillars: (a) green transition; (b) digital transformation; (c) smart, sustainable and inclusive growth, including economic cohesion, jobs, productivity, competitiveness, research, development and innovation, and a well-functioning internal market with strong SMEs; (d) social and territorial cohesion; (e) health, and economic, social and institutional resilience, with the aim of, inter alia, increasing crisis preparedness and crisis response capacity; and (f) policies for the next generation, children and the youth, such as education and skills.



A lively and controversial debate: hopes and worries

Given the considerable changes both in the income as well as expenditure sides, it is not surprising that these decisions taken by the political top have stirred up a lively and controversial debate not only in the political arena but also within academic communities.

In Brussels, we observe a euphoria which is a typical reaction after long and tiring negotiations (see box 4⁷). The term ‘historical

decision’ is used by many members. However, we must be careful not to become victim of a Brussels inspired Zeitgeist which might be quite short-lived if it hits national arenas.

In view of the size of this financial deal, the political leaders themselves recognised this agreement as a major step in stabilising the EU as a system: extending and reinforcing the Union’s actions and activities served to secure or even protect Member States from the economic fallout of the pandemic. There was a general attitude that at least for once the EU’s

Box 4: Reactions

“We did it: Europe is strong, Europe is robust, and above all, Europe is united”

Charles Michel, President of the European Council

“The creation of the recovery instrument [...] represents a historic move for the EU”

European Parliament

“This is a remarkable moment of unity for our Union. This is an achievement that we should take collective pride in”

Ursula von der Leyen, President of the European Commission

“Non seulement c’était l’un des sommets les plus longs de l’histoire [...], après plusieurs mois où nous ne nous sommes pas réunis physiquement [...], un sommet dont les conclusions sont véritablement historiques”

Emmanuel Macron, French President

„Wir haben damit die Weichen für die finanziellen Grundlagen der Europäischen Union für die nächsten sieben Jahre gestellt und gleichzeitig eine Antwort auf die größte Krise seit Bestehen der Europäischen Union gegeben“

Angela Merkel, German Chancellor



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and especially the European Council's actions in a crisis were neither too small nor too late. From a more fundamental standpoint, the Union's measures convincingly document the respective treaty article which allows the granting of "financial assistance" to Member States in "exceptional occurrences" (Art. 122 (2) TEU) in a "spirit of solidarity between Member States" (Art. 122 (1) TFEU). Accordingly, the package "must target the regions and sectors that are most hit by the crisis"⁸.

For many actors and observers, the documents are thus regarded as a turning point in the Union's history. For illustrating the importance of the decision, some actors and authors suggested comparisons with historical milestones – quite often they are stimulating for more reflections, but at the same time they risk being misleading and distorting. German Finance Minister Scholz referring to the financial system of the early United States, characterised these steps as a "Hamiltonian moment"⁹ to promote further integration. The Dutch Prime Minister saw the EU "crossing the Rubicon"¹⁰ with no way back to the old normality.

Beyond the immediate purpose of reducing the economic and social consequences of the pandemic, this agreement can also be regarded as a sign to other world powers that the EU is an actor to be reckoned with. Thus, the agreement indirectly had a geopolitical meaning and might be seen as a step towards

a "more autonomous and geo-strategically engaged EU"¹¹.

Challenges for the ivory tower: suggestions for the academic agenda

For those of us in the ivory tower, this document with political commitment from EU leaders, its legal ratification as well as its concrete follow up are highly valuable and telling objects for our research and teaching on the EU's actions. This covers not only its institutional architecture but also at the same time fundamental developments within European states and their respective "varieties of capitalism"¹² and "patterns of democracy"¹³. Of significant relevance is an in-depth analysis and a comprehensive assessment of the empirical evidence we should observe: Will the use of these funds contribute to supporting the recovery of the Member States and perhaps even to the "rescue of (some) nation states"¹⁴? Whereas decisions for the MFF demonstrate "continuity and path dependencies"¹⁵, the RRF is highly regarded as "opening the way for true revolution [...] on three major points: the own resources ceiling, the borrowing ability of the EU and, last but not least, opening the Pandora's box of new own resources"¹⁶.

With a view to history writing, our academic community should take up the significant challenge in analysing the difficult though ultimately rather fast road towards the July meeting, the dramatic marathon meeting for reaching a consensus inside the club as well as



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the complex products. We can pursue different approaches and perspectives in reading the conclusions as well as follow up documents and statements (see box 1 and 2). However, we should also take a step back to put the package into a proper context. We might find out that this event was not the beginning of a new phase in the European construction “from fragility towards a new vitality”¹⁷, but the last albeit futile attempt to stabilise the Union and “rescue” some of its Member States¹⁸.

Process tracing and respective explanations are a desideratum for our research and teaching. Significant contributions from the academic world characterize the July agreement as “a seminal moment, a game changer [at least] in the finances of the European Union”¹⁹ or even as the sign of a “tectonic shift”²⁰.

Short term analyses of objectives and results

With a view to the overall allocation of funds (see table 1), one key is to study the challenges for the various political arenas in trying to implement these measures successfully. In view of an ambiguous compromise on the respective provisions, we need to analyse the rules, that is legal words and real world patterns of its governance: which rules will the EU institutions follow for preparing and taking decisions on national recovery and resilience plans as well as for implementing and controlling the payments? As a point of departure, we suggest taking a look at A18 and A19 from the July conclusions and the final set

of complex rules in the respective regulation (2021/241). Our traditional categories of supranational and intergovernmental characteristics together with their related theoretical approaches might be helpful tools in embarking on a deeper assessment. We should not only study the dynamics and blockages within the Brussels arena, but also take up the results of a long-time research field to study the domestic constraints and opportunities in the Union’s multilevel game: will Member States be able to use the RRF’s offers: will they deliver the demanding and detailed RRF plans on time and then spend the payments in a productive way to reach the given objectives?

A necessary task is then to widen and deepen the detailed analysis, hitherto mainly focussed on the Brussels arena, by conducting research on the ways that domestic systems deal with pressures from the Union’s level. Can we observe new or reinforced steps of upward and downward Europeanisation²¹? Are the challenges in transferring the payments from the RRF leading to more convergence in Member States’ domestic structures or are they even reinforcing separate national reactions?

Closely linked to questions about the use of procedures are studies on the economic consequences. Even European Commission experts are hesitant to offer a reliable forecast on the effects: the Autumn 2020 Commission forecast expects a fall in the EU GDP by 7.4% in



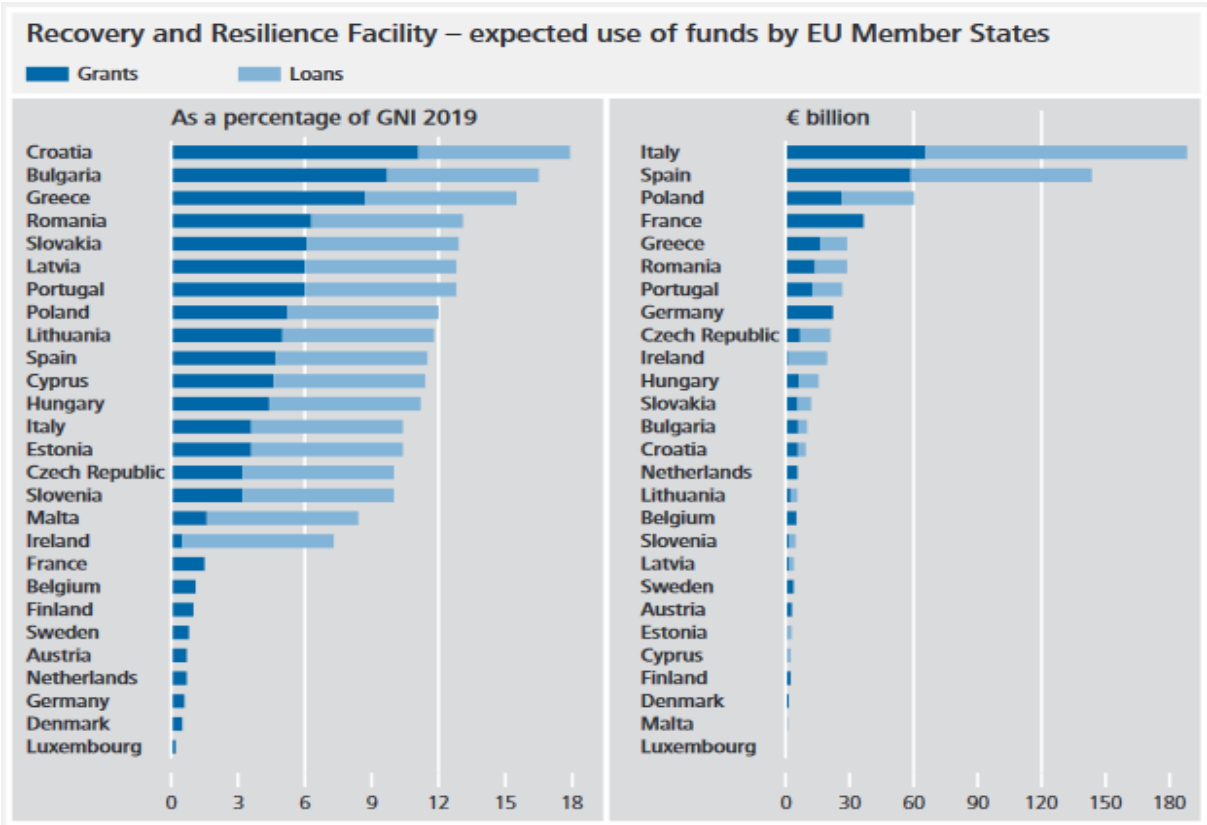
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2020 and estimates that the NGEU “should have a substantial positive and persistent impact on the overall EU growth” with real GDP “up to 2% higher during the years of the NGEU’s active operation” and be “capable of boosting convergence”²².

Even more, we need to analyse and assess if the amount mobilised will have an impact on

the economies of the most affected Member States. Related to the GNI, Croatia, Bulgaria and Greece will benefit the most (see table 2), whereas the EU offers have only a minimal impact for Germany and Luxemburg as well as for the frugal countries.

Table 2: Recovery and Resilience Facility – Grants allocation per Member State



Source: See endnote²³

Thus, we must also take a look at expert voices, for instance the European Court of Auditors who besides pointing at opportunities enumerate “challenges for the coordination of EU economic policy” and risks concerning “the effectiveness of the [...] recovery facility”²⁴.

Bundesbank experts stress a mixed impact of EU spending on growth²⁵.

All these considerations add up to a fundamental issue for the years to come: Will the package fail because of delays, unproductive compromises and cases of non-

compliance caused by weaknesses in the EU's governance mechanism and/ or by implementation deficits by all or some Member States? Will the amounts come too late or not remedy the economic and social consequences of those regions and sectors most hit by the pandemic²⁶?

Revisiting impact on the European Council's role

Starting with a detailed analysis of the conclusions themselves, the academic world needs to discuss the un-/intended consequences of this package and its legal implementations. Our attention could thus focus on the impacts that these decisions might have in a horizontal view of the Union's constitutional architecture and its interinstitutional balances. We could start by analysing the role of the European Council itself: Observers have characterised these dramatic meetings of the European Council as "nights of long knives"²⁷ or "end game"²⁸. The July meeting might perhaps serve as an extraordinary case in studying how the European Council itself works under enormous stress in an unprecedented crisis. With a closer look at empirical evidence from the decision-making processes, we could revisit theses about the ongoing Franco German leadership as a benevolent hegemony²⁹ and the impact of structural cleavages as well as traditional and more recent coalitions. Testing the concept of the European Council as a "club" with some

kind of esprit de corps³⁰ might be of special interest.

We should also study the roles of the Commission and of the EP which have both played significant roles beyond perhaps first-hand impressions based on conventional wisdoms about the relevance of these institutions in crisis management.

For an overall assessment, the debate might turn around a significant controversy: the package then is another case of "the European Council: A self-proclaimed 'sovereign' off the rails"³¹. Or is the European Council once again and ever more forcefully the driver of a process which could be labelled as vertical and horizontal fusion³²?

Longer term perspectives

Linked with such an assessment is the question if these steps "constitute a change in the construction of European integration"³³ and deal with fundamental features for the Union as a 'community'. Questions from the public debate will be centred on whether or not the Union will show a sufficient degree of solidarity with the "regions and sectors that are most hit by the crisis"³⁴ and given the rule of law conditionality, whether or not the package promotes the Union as a 'community of values'. Following such a perspective, our studies might take up the notion of what the Commission President once called the aim of "protecting our European way of life" by "upholding the rule of law"³⁵. Or, in an



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alternative narrative: Are these unprecedented measures just conceived to stabilise the economic community based on the four freedoms with a view to supporting Member States' economies notwithstanding their concept of democracy and values? Thus, the budget's link to the rule of law has turned out to be not only of major political significance but also of academic interest.

Added to this, longer term consequences for the Union's economic nature are raised and disputed: Is this a necessary safety belt to prevent collapse of the Monetary Union and beyond the EU's internal market? Even more speculatively: are certain decisions on raising debt and creating new own EU sources of income significant steps towards a "fiscal Union"³⁶ or with negative assessments a "debt union" or "transfer Union"³⁷.

In this context research could study relevant narratives: Will formulations used by the Heads of State or Government and then applied to large degree in legal documents frame a new, shared master narrative for constructing the Union's identity as a community of necessity, solidarity and of values? Will this shared understanding lead to a new firm position, an *acquis*, a doctrine for the Union's management of crisis for solving Member States' problems? In a long-term perspective for the future of the Union, our debate should also take up the terms of the Hamiltonian Moment or the assertion that "the breakthrough achieved by this agreement paves the way for

unprecedented pooling at European levels"³⁸ leading to shared sovereignty.

To take a broader view on the future developments of Member States: how will the crisis-driven actions of Member States with the RRF but also besides and beyond EU related activities affect Member States' economic and social structures along with the way their democratic systems work? For such a set of studies we might take up the works of Milward: has the EU then again proved to be the "rescue of the nation state"³⁹?

Following this line of argument, let's test one assumption about stages of integration⁴⁰: Will Member States be rescued by incremental steps to be explained by the Monnet method? Will the process then lead towards an ever complex multi-level system which could be characterised by another push or drive for a vertical and horizontal fusion? Does the RRF contribute to the merging and pooling of instruments and competences between the national and EU arenas that implies vertical fusion within the multilevel system? In another formulation: Will these steps mean giving up "some national sovereignty for shared sovereignty"⁴¹?

As a second dimension: does the RRF also reinforces the sharing of responsibilities and legitimacy between EU institutions who might perceive themselves as rivals but – given the legal provisions – also need to be partners? Such trends in the inter-institutional balance might be characterised as a horizontal fusion



within the Union's institutional architecture. Our suggestion is then to explain any moves towards these agreements by using the criteria and dynamics from the traditional Monnet method of a short-term driven step by step process towards extending and reinforcing the EU System. As a long-term effect, we expect that political leaders will be the driving forces for an integration pattern characterised by vertical and horizontal fusion.

Such a set of reflections might lead to one major issue for academic assessments: how far does this special and extraordinary case verify or falsify existing approaches and different theories of European integration? Will it lead to another turn in our theoretical debates about the nature and future of the Union? In view of what some call "grand theories of European integration"⁴², will the available evidence signal another U-turn in the discussion of theoretical approaches going back to earlier reflections from the Community's early days? Furthermore, in view of neo-institutionalist schools, the special meeting might be characterised as a "critical juncture" leading to new paths within the integration process. Or does it confirm an assumption from the rational choice school linked with intergovernmentalist arguments that decision-making was based on conventional bargaining between states defending national interests? Thus, we need to discuss how far decisions from the July session can be assessed as being history-making.

Conclusion: a moving target to remain on the agenda for research and teaching

Early in 2021, as this policy brief is being uploaded, all necessary decisions have been taken by the EU institutions and implementation starts, using a set of complex procedures.

The fate of these decisions is difficult to predict: we can draw scenarios of success and failure by identifying some of the main factors to explain possible developments. Such as the efficiency of governance, administrative absorption capacity and political leadership capacity of Member States as well as effectiveness of economic instruments leading to reforms and investment. Hence, we are confronted with a moving target that requires careful and detailed observation.

We need to keep one fundamental research question in mind: Will the actions of the EU and its Member States be relevant just for a short period so that we can return to conventional analyses of the old normality afterwards or will we be able to observe a new normality? The fundamental features are still difficult to identify and grasp. Do we need a new paradigm?

Such a revisit of our *acquis académique* leads also to the question of which added value we can draw to study not only this case but also former and future cases.

Moreover, as an offer to the policy arena: can we draw lessons to give advice for improving



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crisis management capacities and the governance structure for the use of new funds? Whatever we observe in 2026 (the projected end for payments of the RFF) or later from a historian's point of view in 2058, when the Union's debts are expected to be repaid, this case offers highly relevant and valid insights in understanding the evolution of the EU and European states into directions which are as yet difficult to predict.

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¹ European Council Conclusions, 21 July 2020, online available at:

<https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf>

² European Commission (2020): EU's next long-term budget & NextGenerationEU: Key Facts and Figures, online available at:

https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/mff_fact_sheet_agreement_en_web_20.11.pdf

³ €240 billion in debt raised by the European Stability Mechanism; EU debt of up to €100 billion for the SURE loans and €200 billion of the European Investment Bank.

⁴ Regulation EU 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, online available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R0241>

⁵ Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom

⁶ European Council Conclusions, 17-21 July 2020, online available at:

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⁷ Sources of the quotes in the respective order:

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⁸ European Council Conclusions, 21 July 2020, online available at:

<https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf>, p.2



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<https://carnegieendowment.org/2020/09/09/europe-s-global-test-pub-82499>
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- ¹⁷ State of the Union Address by President von der Leyen at the European Parliament Plenary, online available at: https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_1655
- ¹⁸ See endnote 15.
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- ²³ Graph taken from: Deutsche Bundesbank (2020): Monatsbericht August 2020, online available at: <https://www.bundesbank.de/resource/blob/841042/044bf64f65aee34d9ddb1b760837bc3e/mL/2020-08-monatsbericht-data.pdf>, p.85.



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